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Tax revenues dip, state says

Controller says falling housing market bears part of the blame.

By Jim Wasserman Bee Staff Writer

California's troubled real estate and construction sectors are likely culprits for state income taxes falling \$1.3 billion below projections in January, state Controller John Chiang said Tuesday.

Chiang noted the revenue shortfall at a news conference highlighting changes that will affect state residents as the tax preparation season gets under way.

Last year 15 million individuals and 1 million businesses paid nearly \$49 billion in income taxes, the state's largest single source of revenue.

The tax slump, first reported last month by Legislative Analyst Elizabeth Hill, signals potential trouble for Gov. Arnold Schwarzenegger's \$103 billion general fund budget recently proposed for a new fiscal year beginning July 1.

The controller's office said the governor's budget proposal may already be \$710 million short on revenue.

But state finance officials said Tuesday it's too early to predict any outcomes.

"We've still got in the next couple of days a couple of big numbers that could swing the overall picture," said state Department of Finance spokesman H.D. Palmer. "That's sales taxes and insurance tax revenues. In the past those have had a major swing in terms of what the month looks like overall."

Chiang's office noted that tax receipts from retail sales, banks and corporations were higher than expected in January and helped buffer the tax slide.

The reasons for the sudden decline in income tax payments aren't yet clear, Chiang said. But the controller cited continued weakness in the state's housing sector, as well as fewer California companies going public.

"Obviously, we've known for a while that the real estate sector is slowing down," Chiang said at the news conference at the Franchise Tax Board Processing Facility on Butterfield Way. "Associated employment in the construction activity over the year is down. ... And if you look at what's happening in the IPO (initial public offering) market, we don't have the big companies going public in California as we saw with Google and others last year."

Tuesday, the California Association of Realtors reported a 23 percent drop in home sales during 2006 compared with the previous year.

Regionally, real estate agents reported 23,300 fewer home sales in 2006 than 2005 in Amador, El Dorado, Nevada, Placer, Sacramento, Sutter, Yuba and Yolo counties.

The statewide downturn has triggered earning losses and layoffs throughout the real estate, financial services and construction sectors.

"I think we still have a quarter or two of this downturn in both the national and California housing sectors to go -- and we're going at it in a bigger way here in California," said Howard Roth, chief economist at the state Department of Finance.

Chiang, beginning his first tax season after winning election to the controller's office last November, expressed sympathy to state residents for the complexity they face in filing out their tax forms this year.

"There are 10 million words in the tax code. It's a very difficult time for many," he said.

Chiang especially urged lower-income working families to claim the earned income tax credit on their federal taxes.

He said nearly 500,000 families missed out on \$850 million in refunds last year. The credit refunds up to \$4,536 to working families earning less than \$38,348 a year, he said.

The controller also announced that Californians can have their refunds split this year among two accounts that include checking, savings, IRA or money market.

Chiang also urged more Californians to file their state taxes electronically and promised refunds within seven working days to those who do. "It's six to eight weeks if you send a return by hard copy," he said.

While many tax services charge for electronic filing, the state offers the service at no charge through its "CalFile" program, Chiang said.

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State Tax Changes

- * Taxpayers can electronically deposit refunds into two bank accounts, including savings, checking, retirement or money market.

- * The California Sea Otter Fund is the latest on a list of 14 charitable funds accepting contributions directly from the state tax return.

- * More than 6 million taxpayers with incomes up to \$301,491 are eligible to file electronically with the free state program "CalFile."

- * For the 2007 tax year a new law requires registered domestic partners to file state tax returns as married couples using either "married filing jointly" or "married filing separately" status.

Some Tax Tips

- * This year's filing deadline is extended two days, to April 17. The traditional tax day, April 15, is a Sunday.

- * Filing isn't necessary for singles or household heads earning less than \$13,713 - or married people with total income under \$27,426.

- * Working families earning less than \$38,348 a year are eligible for earned income tax credit - a refund - up to \$4,536 on federal taxes.

- * The state has 1,800 volunteers across California to help complete tax forms and provide information in Spanish, Chinese, Korean and Vietnamese.

- * Toll-free help in locating help centers and other questions: (800) 852-5711.

- * On the Web: www.ftb.ca.gov